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Jute: The Cornerstone of the Bangladesh Economy

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A Research Paper

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Jute: The Cornerstone of the Bangladesh Economy

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A Research Paper

This paper was prepared by [] Office
of Near Eastern and South Asian Analysis, with
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**Jute: The Cornerstone of
the Bangladesh Economy**

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Summary*Information available
as of 25 March 1988
was used in this report.*

Bangladesh, like nearly half the other less developed countries, is feeling the effects of depending on one primary commodity for at least half of its export earnings. Synthetic substitutes threaten the world export markets for jute and have already replaced jute in several uses. Falling demand in industrial countries for Bangladesh's main export has government officials scrambling for alternatives to offset jute export losses.

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Excess capacity and labor in the mills have escalated production costs, reducing the international competitiveness of Bangladesh's jute. The industry faces other woes:

- A heavy debt load inherited from the nationalization period (1972-82).
- Labor strife.
- Power shortages.
- Inadequate water supplies for processing.

Although the problems in the jute industry add to President Ershad's woes, labor strife and other disruptions in that sector would not pose a serious threat to the government.

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Dhaka announced its New Jute Policy in March 1987 to shore up the industry. The primary elements of the plan include the creation of a buffer stock to help stabilize prices and a special office in the government to monitor world market conditions and competition from other jute suppliers and synthetic fibers. The plan also calls for:

- Supplying more fertilizer and other raw materials to farmers in high-quality jute growing areas.
- Setting production targets on the basis of the demand for jute in domestic and world markets.
- Enhancing the product diversification program for jute goods.

Lack of coordination and planning have limited the policy's success.

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World demand for jute is likely to drop. Buffer stock arrangements will not solve the jute problem for Bangladesh because they do not address the fundamental problem of declining demand. Dhaka is unlikely to take the politically difficult steps required to reduce excess capacity in the jute mills, reduce the labor force, or restructure the financial position of the mills on its own. Only a severe foreign exchange crisis would force Dhaka to adopt policies that would streamline the jute industry. Because Bangladesh is in a good foreign financial position, it is unlikely to seriously address the jute industry's problems.

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Bangladesh will continue to depend on the United States as a major market for its jute and will press for barter arrangements in order to unload its excess stocks. Jute and jute goods constitute 20 percent of Bangladesh's exports to the United States. The United States will probably be approached for technical assistance to establish a national buffer stock and to fund modernization and structural adjustment projects in the jute industry.

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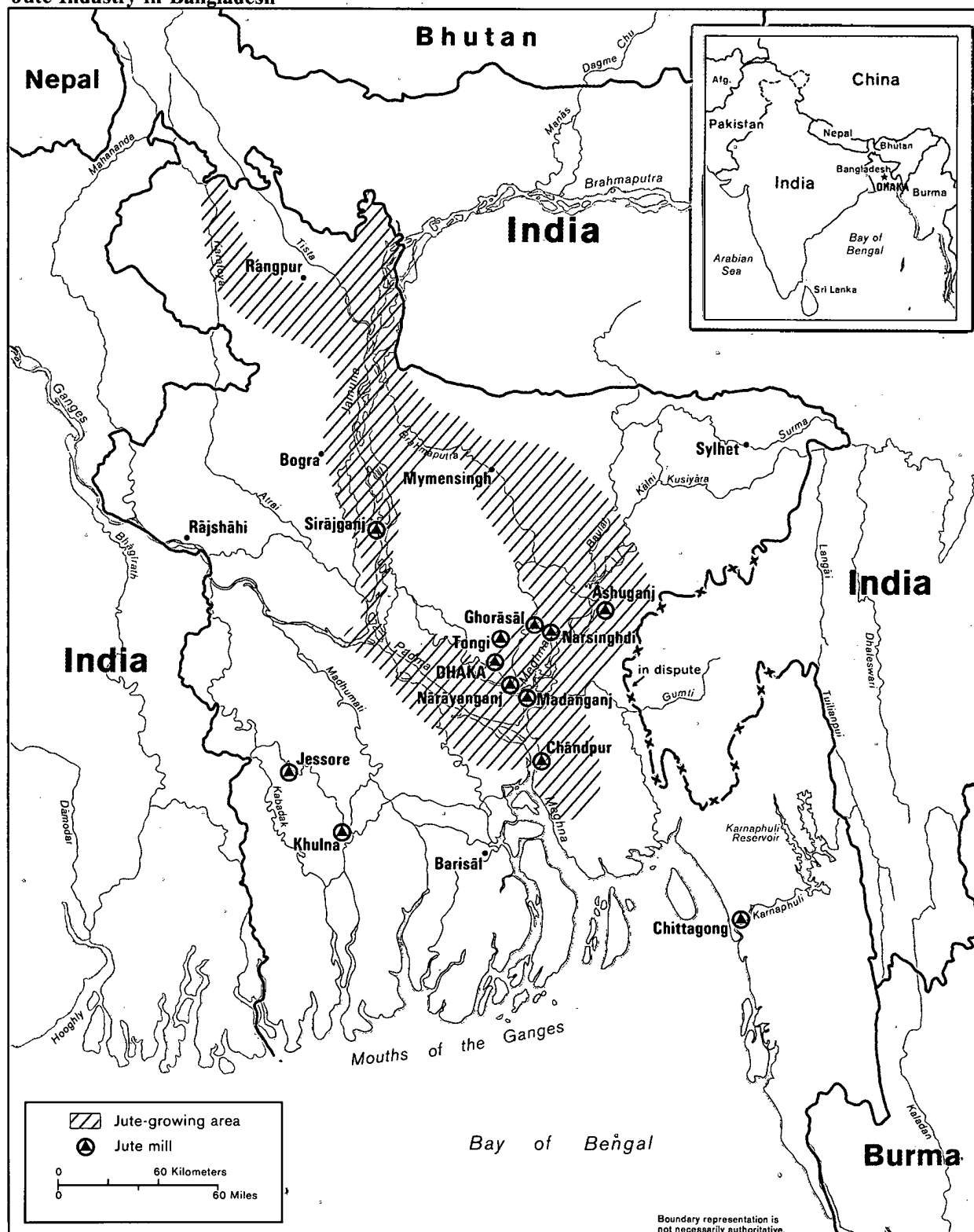
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Figure 1
Jute Industry in Bangladesh



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Jute: The Cornerstone of the Bangladesh Economy

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Bangladesh occupies a key position in the world jute market, and jute holds a key position in the Bangladesh economy. Like nearly half of the less developed countries, Bangladesh is feeling the effects of depending on one primary commodity for at least half of its export earnings. According to the Food and Agriculture Organization, 80 percent of raw jute and 42 percent of jute goods available in the world market come from Bangladesh. Jute is grown by roughly 15 percent of the country's farmers, provides employment for nearly 200,000 industrial workers, and contributes nearly 7 percent of GDP.

Dhaka exports about 90 percent of its jute products and one-third of its raw jute because domestic consumption is small.

Jute processing accounts for about 15 percent of Bangladesh's industrial production, according to academic studies. Fifty-three percent of the country's jute mills are privately owned. The remainder are owned by the government. Although total capacity is 680,000 metric tons a year, jute mill output reached a peak in fiscal year 1981 when 580,000 tons were produced.¹ Output during fiscal year 1987 reached only 525,000 tons.

Major uses of jute include:

- Carpet backing and other types of cloth destined primarily for the United States, Western Europe, Australia, and Japan.
- Packaging materials.
- Wall coverings and curtains.

Burlap makes up 44 percent of jute mill output, 36 percent consists of sacking, 18 percent is carpet backing, and 2 percent is composed of other goods. According to US Embassy reporting, government efforts are now focused on finding new uses for jute. With the exception of jute carpets, attempts to use jute in the paper, clothing, and blanket industries are still in the experimental stages.

¹ The Bangladesh fiscal year ends 30 June.

Troubles in the Jute Industry

Low Demand. Falling demand for jute goods in industrial countries is causing major headaches for Bangladesh's jute industry.

consumption of jute products in industrial countries fell from 1 million tons in 1980 to about 750,000 tons in 1987. Jute shortages caused by severe flooding in Bangladesh during the spring of 1985 resulted in high prices that accelerated a move in industrial countries toward synthetics.

Competition with polypropylene—a synthetic substitute for jute—threatens many of Bangladesh's packaging markets. Polypropylene bags are edging out those made of jute in cement, fertilizer, and chemical packaging because they are lighter and cheaper.

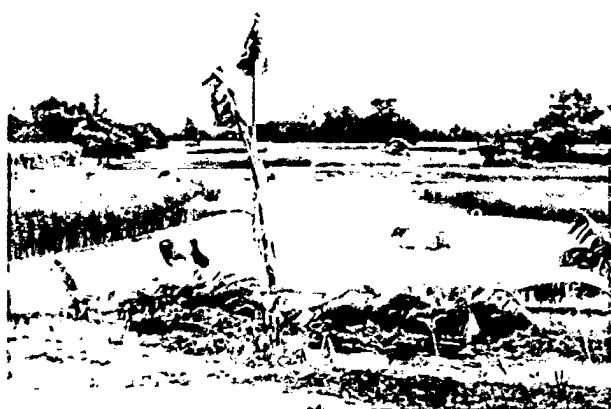
once a user becomes accustomed to purchasing synthetics, he is unlikely to return to jute because synthetics are more dependable in terms of supply and price.

Jute has only two advantages in competing against synthetics:

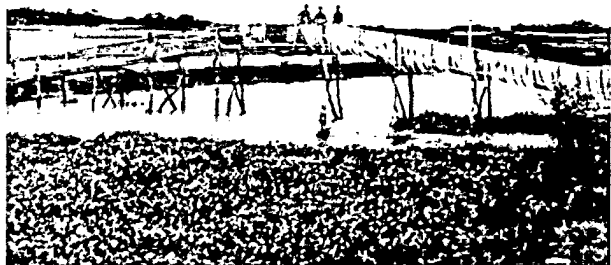
- Health hazards associated with some chemicals used in manufacturing synthetics give jute an edge in packaging foodgrains.
- A low level of flammability and smoke toxicity favors jute's use in woven carpet backings.

Heavy Debt. When jute mills were denationalized in 1982, the new owners assumed debts totaling \$50 million created by mismanagement and corruption during the 10 years the mills were owned by the government, according to press reports. Adding to the industry's financial burden, high prices for raw jute in the wake of floods in 1985 forced mills to sell burlap and sacking at as much as a 25-percent loss and carpet backing cloth at nearly a 50-percent loss in order to retain market shares.

Jute Factsheet



Jute fields surrounding a recently cut rice strip. [redacted]



Jute fiber being dried before sorting and bailing. [redacted]

Even though there are more than 30 species of jute, only two are widely grown in Bangladesh. White jute, which accounts for two-thirds of the total jute acreage, [redacted] is grown mostly in flood-prone areas of northern Bangladesh. It is largely used in manufacturing sacks and burlap. Tossa jute, a better quality jute used in carpet backing, is grown on higher elevations along with other crops. Planted in rotation with rice, jute helps control pests, diseases, and weeds. [redacted]

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The jute plant contains a strong, woody fiber that is separated from the stem and bark after being soaked in water and is then dried, sorted, and spun into yarn. The jute spinning process is labor intensive and repetitious. Sorting is the first step in the process. Raw jute is sorted to ensure that the quality of the jute matches the specifications of the products to be manufactured. Blending—mixing various types and quality of raw jute—is the next step in the process and is crucial for attaining the quality required for specified products. For example, a fine-quality jute is required for making warp—a series of yarns extended lengthwise to form the base in the loom—because the yarn must withstand the tension from weaving. Weft, forming the horizontal threads in the loom, can be made from a lower quality jute with twisted fibers. [redacted]

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Preparing jute for spinning consists of carding, drawing, and doubling. These operations make the fibers parallel, improve their uniformity, and reduce their thickness to a level suitable for spinning jute into yarn. [redacted]

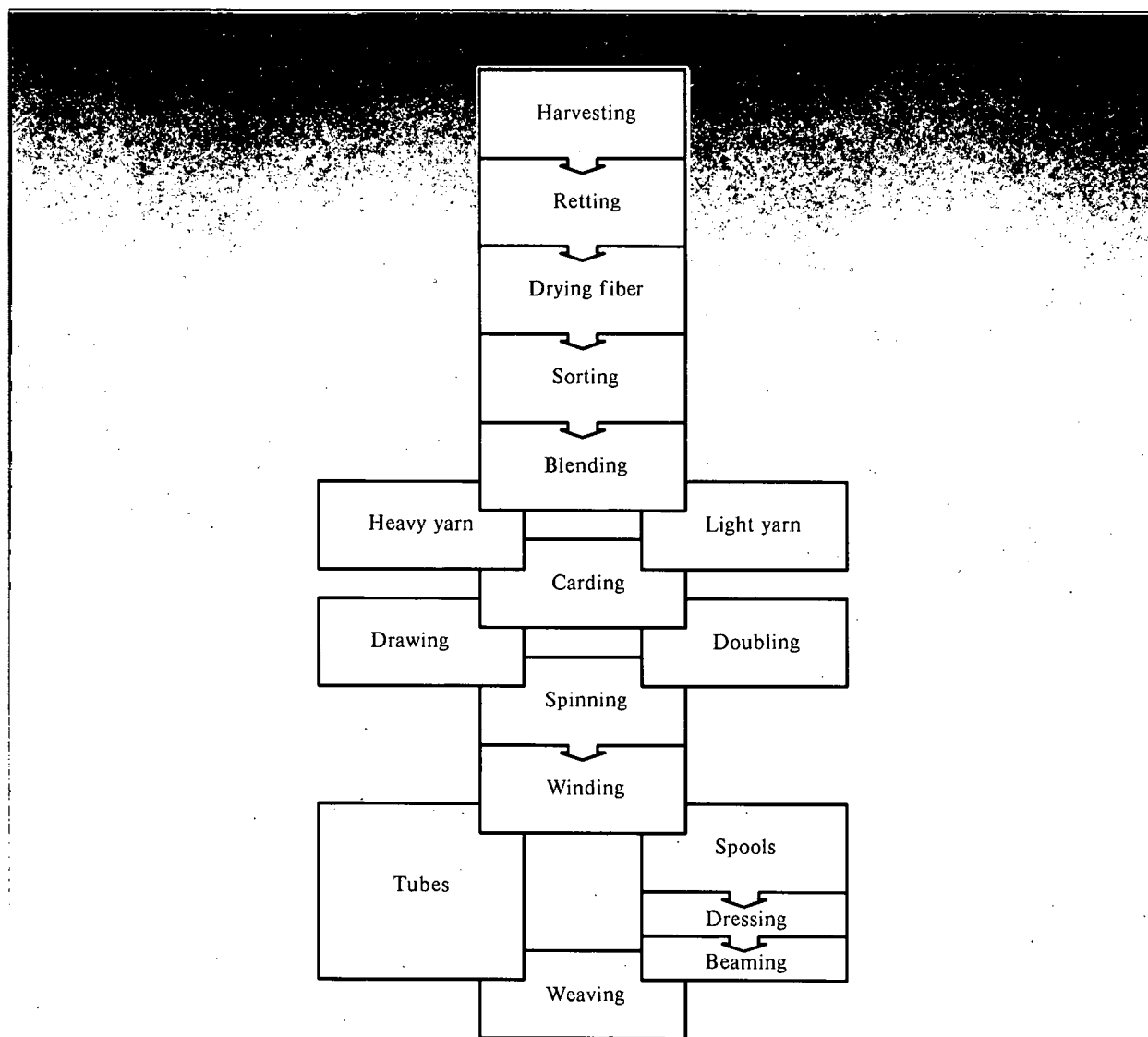
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After the yarn is spun, the warp yarn is wound onto spools and the weft onto tubes. The weft is ready for weaving after this stage, but the warp must go through a finishing process—where the surface is trimmed and smoothed—before it can be sent to the loom. [redacted]

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Figure 2
Jute Processing Cycle



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[] The government provided loans of \$25 million to cover these losses, increasing the industry's debt and limiting its capital available for purchasing new machinery. []

Strong Labor Unions. Workers in the jute industry are heavily unionized and politically active, making efforts to streamline the industry difficult. Moreover, many of the unions in the jute sector are affiliated with opposition political parties, in particular the Bangladesh Nationalist Party and the Communist Party of Bangladesh. []

As a result of union pressure, the jute mills are overstaffed. According to US Embassy reporting, public-sector mills employ nearly one additional person per loom than the private sector because labor unions prevent the government from laying off workers. Even in private-sector mills, employment is excessive because owners were required to retain employees for a set period after the mills were denationalized. According to academic studies, private owners have been able to reduce employment somewhat since then but only to levels acceptable to the labor unions. []

According to press reports, employees believe that laws and regulations governing safety, working hours, and compensation are not properly implemented, leading to frequent work stoppages and strikes. For example, last year 15 people were injured in clashes over trade union issues between rival workers' groups at the state-owned Adamjee Jute Mill, the world's largest, located outside Dhaka. Despite receiving a wage increase of about \$17 million from the government, workers at this mill staged a two-week strike in 1986 in which they demanded even higher wages and better working conditions, according to press reports. Moreover, employees in privately owned mills engage in frequent work stoppages in efforts to maintain equality in wages and benefits with the public sector. []

Electrical Power and Water Shortages. Frequent electrical power failures also contribute to production losses in the jute industry. According to press reports, power for several mills was rationed for several months in 1987, and the factories could operate only six hours a day. Employers, however, still had to pay their workers for an eight-hour shift. []

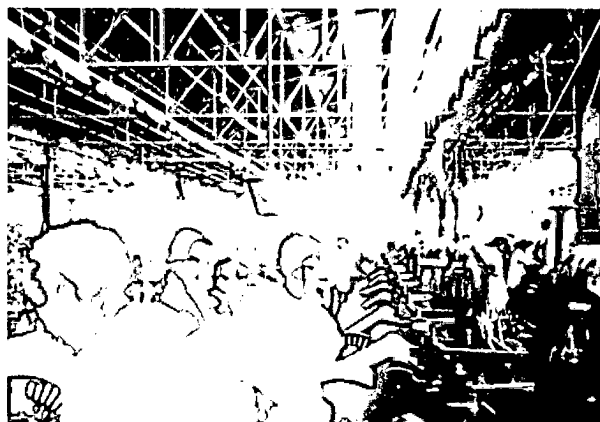


Figure 3. Jute weaving at Adamjee Jute Mill, the largest in the world. []



Figure 4. Men retting jute, loosening fiber from stalk. []

Inadequate water supplies used to remove the jute fiber from the stem—the retting process—have been exacerbated by dry weather adversely affecting quality over the past two years. The retting process demands large quantities of clean water that are rarely available in dry years. According to World

Figure 5
Bangladesh: Jute's Share of Exports, 1981-87

Million US \$



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Meteorological Organization weather data, precipitation during August through October—the main jute harvesting months—has been 20 to 60 percent below normal during this period.²

Effects. As a result of the strikes and electrical and water shortages, most mills operate well below capacity, adding to the cost of jute products. Moreover, because of the inefficient use of labor and machinery, production costs, excluding the jute itself, are 20 to 30 percent higher than they otherwise would be,

Given the falling demand in industrial countries and the severe competition from synthetics, we believe that jute's share of export earnings could fall to 20 percent by 1995. Falling demand for jute has already caused a substantial drop in jute's share of Bangladesh's export earnings.

² Estimates were based on the average of the precipitation reported in Rangpur, Bogra, and Dhaka during the period.

jute goods accounted for 45 percent of export earnings in fiscal year 1987, compared with 67 percent in fiscal year 1981.

The resulting price crunch at the growers' level has choked off purchasing power in the rural sector of the Bangladesh economy, where small producers depend on jute as the principal cash crop. Bangladesh farmers could not recoup their losses even with a bumper crop in fiscal year 1987 because prices had plummeted from \$600 per ton in fiscal year 1985 to \$200,

Moreover, growers' production costs have increased because of reduced government subsidies on agricultural raw materials such as fertilizer.

The jute industry has become a major financial drain on the treasury. Jute mill losses in fiscal year 1986 totaled \$80 million,

Press reports indicate that the government has already sunk \$150 million into stockpiling surplus jute. The government extended a \$2.5 million emergency loan to public-sector mills in 1986. Moreover, jute exporters have been granted a 100-percent Export Performance Benefit to make their products more competitive.³ Despite this assistance, jute mill owners are asking for additional help from Dhaka, such as a cash subsidy to compensate for export losses, preferential electrical power rates, and a reduction in import duties on spare parts and machinery. []

The Government's Response

Dhaka announced its New Jute Policy in March 1987 in an attempt to shore up the industry. The primary elements of the plan include the creation of a buffer stock to help stabilize prices and a special office in the government to monitor world market conditions and competition by other jute suppliers and synthetic fibers. The plan also calls for:

- Supplying more fertilizer, seeds, and other raw materials to farmers in high-quality jute growing areas.
- Setting production targets on the basis of the demand for jute in domestic and world markets.
- Enhancing the product diversification program for jute goods. []

Even before the New Jute Policy, Dhaka had revamped its policies on jute procurement prices. According to press reports, the current pricing policy does not fix a minimum price for raw jute, and market forces are allowed to determine the price. The main impetus for the new pricing policy was the government's inability to enforce payment of a minimum price to jute growers. We believe Dhaka is calculating that eliminating subsidies to jute growers will make Bangladesh's jute products more competitive on the world market. Such a policy, however, will put a further squeeze on small growers. []

³ Exporters are permitted to sell all of their foreign exchange earnings in the secondary market—the gap between the official and secondary exchange rate was 7.5 percent in fiscal year 1987—to garner additional revenues in terms of *takas*, the Bangladesh currency. []

Buffer Stocking

Faced with sharp price and supply fluctuations in the last three years, the Bangladesh Government has instituted buffer stock operations. Buffer stock programs are designed to help stabilize prices and to provide a cushion against supply fluctuations through purchases of excess supplies during periods of bumper crops and sales from stocks when supplies are short. []

Although Dhaka is spending scarce financial resources on jute procurement for the buffer stock—\$7 million has been spent so far on public-sector procurement, according to US Embassy reporting—government officials have no plan for administering it. According to the US Embassy in Dhaka, the government has yet to make the necessary improvements in storage facilities and in the organization of the Bangladesh Jute Mill Corporation to facilitate such a program.^a Raw jute is stored in scattered procurement centers, warehouses, and mills without any centralized controls. The large volume of low-quality jute that has been procured for the stock, coupled with the inability to relay market information among jute officials and other concerned groups, have made it difficult to set a target export price. []

^a The Bangladesh Jute Mill Corporation is the umbrella organization for all public-sector jute mills. []

The government has had only minimal success so far with its New Jute Policy because of a lack of comprehensive planning and coordination. Efforts to revitalize raw jute research, extension services, and seed supplies have been disappointing. Although the Ministry for Jute has formulated a modernization program for jute factories, little has been accomplished. We believe difficulties in instituting these elements of the

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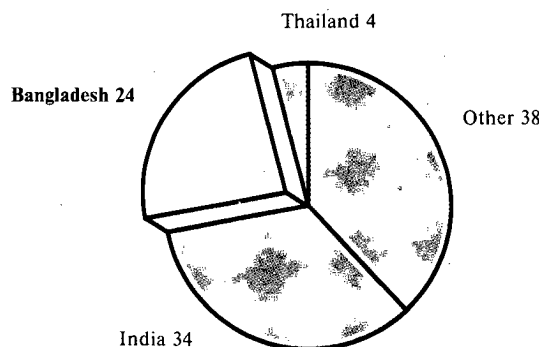
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Figure 6
Major Jute Producers, FY 1986

Percent



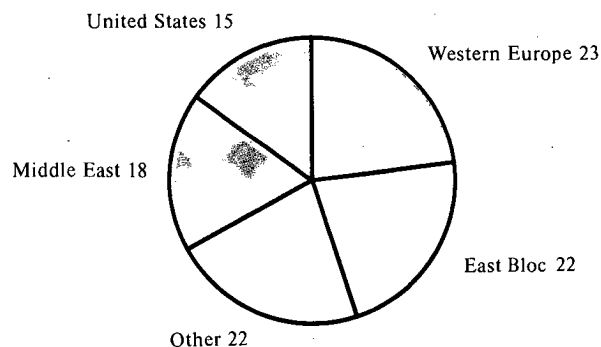
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plan may be a blessing because they are aimed at increasing production and do not address the main problem of falling demand and excess supply. []

Faced with a jute glut this year, the government is placing increasing emphasis on expanding market promotion in the United States and other developed countries. For example, a new carpet underlay for glue-down installations—consisting of a dense sponge rubber pad with a woven jute fabric on each side—is being promoted in the United States, and trial samples have been shown in West European markets. According to press reports, Bangladesh sent a delegation in January on a five-nation tour to explore new markets for jute goods. Despite these promotional efforts, according to US Embassy reporting, joint projects with the World Bank, the International Monetary Fund, Japan, and West Germany to diversify the jute industry have not been successful. Jute manufacturers are ill equipped to incorporate new

Figure 7
Major Markets for Bangladesh's Jute and Jute Goods, FY 1985

Percent



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production techniques or product lines, and marketing limitations for new products have made many projects economically unfeasible. []

Bangladesh has turned to barter trading arrangements in order to unload its excess jute goods. Such trade has been particularly attractive to the Soviet Union and East European countries, which often offer machinery, equipment, and technical assistance in exchange. For example, Bangladesh signed a \$75 million barter arrangement last year with the Soviet Union, exchanging jute products for tractors, machinery, and diesel oil, according to US Embassy reporting. Czechoslovakia signed a similar agreement providing iron, spare parts, and scientific equipment for jute. []

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Private Jute Mills: Trying To Get Their Act Together

Private jute mill owners have banded together under the auspices of the Bangladesh Jute Mill Association (BJMA) to protect their interests and to expand jute trade. The BJMA provides a wide range of services and advice to members on bank financing, power supply, sales, and labor. The BJMA is also concerned with the exploration of new markets and research and development. It maintains close contact with various departments of the government—in particular the Ministry for Jute—and is represented in several important governmental committees. [redacted]

[redacted] BJMA, the association wants to become the mouthpiece for Bangladesh's jute industry and to expand its membership to the public sector. [redacted]

The BJMA has responded to government policies but has not taken many initiatives of its own. For example, most of the jute diversification projects have been undertaken by the government, according to press reports. The BJMA has done little to expand its overseas contacts or to work out more barter and government-to-government arrangements. Foreign buyers must take the initiative and seek out the BJMA to negotiate contracts for jute goods purchases from the private sector, according to press reports. [redacted]

The BJMA was pleased with the government's decision not to set minimum procurement prices last year and hopes market forces will continue to control pricing. According to press reports, the BJMA believes that fixing a minimum price would only benefit middlemen because the government cannot enforce such payments to jute growers. Although the new policy saves mill owners money, jute growers are demanding that the government reinstitute minimum procurement prices. [redacted]

Outlook

We expect Bangladesh jute exports to remain relatively flat and the industry to slowly decline. [redacted]

[redacted] Bangladesh's export earnings from jute will increase by only 1 percent annually during the next decade, bringing in \$460 million in 1995 compared with \$420 million in

1987. Achieving even this modest gain will depend on the economic health of the developed countries. A downturn in the US housing or Japanese car industries, for example, would significantly reduce the demand for jute in carpet backing. [redacted]

We do not believe that reliance on buffer stock arrangements will solve the jute problem for Dhaka because it does not address the underlying declining demand. Even if Bangladesh officials solve their administrative problems and set up a workable buffer stock, they will store increasing quantities of jute purchased from farmers, possibly at relatively high support prices, that can be sold only at large losses. If these stocks are not sold, it will become increasingly costly for Dhaka to store the commodity. [redacted]

We do not expect Dhaka to take the politically difficult steps required to reduce capacity in the jute mills, reduce the labor force, or restructure the financial position of the mills on its own. According to US Embassy reporting, any moves to reduce labor in the jute industry would be intolerable to a government pledged to increase employment opportunities to keep pace with the country's rapid population growth. Such moves would generate severe protests from opposition political parties and labor unions. Continued infusions of credit into the industry to pay the excess labor, consequently, will add to the government's budget deficit. [redacted]

Only a severe foreign exchange crisis would force Dhaka to adopt policies that would streamline the jute industry, in our judgment. Under these circumstances, the International Monetary Fund and other major donors would extend new loans only if Dhaka agreed to such policies as reducing subsidies and cutting the budget deficit. We believe that any meaningful action to carry out those policies would entail substantial reductions in Dhaka's largess for jute mill owners and farmers. [redacted]

Because Bangladesh is in a good foreign financial position, Dhaka is unlikely to seriously address the jute industry's problems. Foreign exchange reserves,

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Zafer Imam, Minister for Jute

Outspoken, opportunistic . . . Freedom Fighter during Bangladesh's war of independence . . . former member of opposition Bangladesh Nationalist Party . . . defected to Ershad government [redacted] served since 1982 in various ministerial positions . . . appointed Minister of State for Jute in 1986 . . . promoted to full minister in 1987. [redacted]

at \$777 million in November 1987, nearly doubled since the end of 1986 and were equivalent to four months of imports, considered to be a comfortable cushion by most financial experts. With more than 90 percent of Bangladesh's external debt on highly concessional terms, according to the US Embassy, Dhaka has maintained a manageable debt service ratio.⁴ [redacted]

In our judgment, labor unrest in the jute industry will not get out of hand as long as Dhaka continues to inject large sums of money into the industry. According to the Minister for Jute, jute workers and growers are better off under President Ershad than under any previous government. During Ershad's rule, jute workers' wages have doubled. Fifty thousand workers at the government-owned Adamjee Jute Mills demonstrated their loyalty by working during the nationwide trade union strikes last October. [redacted]

We believe that workers in the jute industry will pose a serious threat to Ershad only if Dhaka is forced to undertake austerity measures that would cost many of them their jobs. Even then, jute workers would need active support from those in other industries to seriously threaten the government. Jute labor unions, with their ties to opposition parties, could launch strikes, work slowdowns, and other activity designed to put pressure on Ershad. Although jute workers

⁴ Commercial borrowing to finance food imports coupled with repurchase obligations to the International Monetary Fund has contributed to a sharp rise in the debt service ratio this year. But the current ratio of roughly 30 percent should return to normal levels of about 20 percent during the next two years once commercial loans are repaid. [redacted]

International Jute Organization

The International Jute Organization, headquartered in Dhaka, was established in 1984 to improve the competitiveness of jute and jute products. The organization includes both producer and consumer countries. Since its inception it has had little impact on the cultivation of jute and the production and marketing of jute products, according to US Embassy reporting. Severely underfunded, the organization has only enough money to cover administrative expenses, according to the US Embassy in Dhaka. Although the organization has undertaken market promotion in Western Europe and the United States, these efforts may be suspended because of inadequate project monitoring and funding. [redacted]

The organization plans to establish an international buffer stock program, but opposition from consumer countries has caused delays. Consumer countries would prefer efforts to strengthen and coordinate market information and forecasting systems, but they endorse attempts by producing countries to establish their own stock-holding facilities and to seek funding from international agencies and donors for such efforts. According to the US Embassy in Dhaka, research and development undertaken by the International Jute Organization is only a supplement to and not a replacement for a national program. Even if organizational funding increases, it is unlikely to influence the long-run prospects for jute. [redacted]

have considerable potential to be a thorn in the side of the government, without other factors that could galvanize the opposition we do not believe labor strife in the jute industry could topple Ershad. [redacted]

Implications for the United States

Bangladesh will continue to depend on the United States as a major market for its jute and will press for barter arrangements to unload its excess stocks.

Dhaka is also likely to ask Washington for compensation for jute export losses such as that granted by the European Community last year. Under the European Community's special trading arrangement, exporters of primary products, including jute, are assured compensation when their earnings from one year of exports to the Community fall below the average earnings of the previous four years. [REDACTED]

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The United States—a major participant in the International Jute Organization—will probably be approached by Bangladesh for assistance in propping up its ailing jute industry. Areas where US help may be sought include:

- Establishing a national buffer stock.
- Testing new uses of jute and expanding the capabilities of jute looms to handle other fibers.
- Funding modernization and structural adjustment projects in the jute industry. [REDACTED]

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Bangladesh will continue to seek joint ventures with the United States and other investors to fund diversification efforts. Patool (a knitting wool substitute), jutton (a blend of treated jute and cotton), and other diversification projects are likely to generate potential investment opportunities for US businessmen. [REDACTED]

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